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UNCLAS SECTION 01 OF 02 RANGOON 000289

SIPDIS

SENSITIVE

STATE FOR EAP/MLS; PACOM FOR FPA; TREASURY FOR OASIA:AJEWELL

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TAGS: [ECON](#) [PGOV](#) [BM](#)

SUBJECT: IN MANDALAY, TRADE UP AND TOURISM DOWN

REF: A. RANGOON 0287

[B](#). RANGOON 0214

[C](#). 05 RANGOON 1179

[1](#)1. (U) Summary: Enough people make money from trade with China to keep upscale retailers busy in Mandalay, Burma's second largest city. However, due to rising prices and the poor state of the economy, residents are increasingly price sensitive, making it tougher to prosper there. Europeans, the primary generators of tourism income, have dwindled, and the hoped-for Russians and Israelis have just begun to trickle in. Some farmers around Mandalay use Chinese technology and advice to produce two or three crops a year, which traders can easily sell to the hungry China market. Mandalay has long been a trading crossroads between Upper and Lower Burma and between China and India. It remains an active commercial center today. End Summary.

Keys To Success: Diversify and Import

[1](#)2. (U) As part of an Embassy outreach week (ref A), we met with local business representatives to discuss the current commercial climate in Mandalay. Ethnic Chinese own about half of the city's restaurants and almost all new businesses, according to one local businessman. The influx of Chinese residents and businesses have caused real estate prices to rise, but both Burmese and Chinese residents profit from reselling the flow of imported Chinese goods. One resident said, "Ninety-five percent of goods available here are of Chinese origin. That's all you can find here."

[1](#)3. (SBU) As in Rangoon, the most successful Mandalay businesspeople have diversified businesses. One businessman we met owns three hotels, has a money-changing license, and will open an umbrella factory. His most profitable business, though, is importing Chinese goods for resale in India and Bangladesh. Instead of taking a two-week trip from the Indian border through Burma to the Chinese border, Indian traders buy Chinese goods from him in Mandalay, to take back to the Indian border in three days. The businessman plans to open a facility on the Indian border to take advantage of the new demand. He did not worry about Chinese competition in Mandalay: "The Chinese need to make money every year. If they don't, they close. We Burmese know we will have good years and bad years and don't always expect to make money. One of our businesses will do well when the others are down. Then there's always a chance we'll do better next year."

...and Export

[1](#)4. (SBU) Mandalay agricultural goods, especially fruits and vegetables, supply China's growing demand. "China will buy anything Burma can produce," said one trader. China, not Burma, buys many of the local crops, including watermelons, honey oranges, and tomatoes. Using modern technology and information from Chinese agronomists, some farmers in the area boosted yields and recently moved from producing one crop per year to two or three.

[1](#)5. (SBU) Agricultural traders have established networks of brokers to handle the transfer of the goods and payments at the border. Much of this trade occurs outside the formal sector, despite government efforts to increase controls and tax it (ref C). Traders can move three shipments a week into China unofficially, according to one businessman, while it can take up to a month to get a trade permit for one shipment using official channels. Since the government ordered traders to stop using US dollars for border trade in February (ref B), business reps now use yuan for official transactions, and continue to use dollars for informal trade. According to one trader, "Euros are useless here," despite GOB urging.

Some Sectors Struggle

[1](#)6. (U) Western tourists, primarily Europeans on group tours, have long been the main revenue generator for the tourism industry, but their numbers have declined. Travel reps say the repressive political situation, successful anti-tourism campaigns by exile groups, and a higher public profile of Burma's problems have led many Europeans to choose other vacation destinations. Hotels have low occupancy, even

offering rooms for only \$5-\$35 per night. The few Americans that visit Mandalay are older, wealthier tourists who come on custom tours. Tour operators now hope for growth from two new markets, Russia and Israel.

17. (SBU) Other businesses also struggle as increasing prices and the poor economic climate make consumers more price-conscious. The premier computer store in Mandalay survives on slim profit margins from IT training classes and a busy internet cafe, but earns little from the average of 15 personal computers it sells per month. A consumer goods manufacturer and distributor said that sales steadily drop because his customers' purchasing power has declined. "The prices have gone up," he said, "but their wages haven't."

18. (SBU) Comment: As the gateway to Upper Burma, and a major link between India and China, Mandalay will always be a busy trading city. The regime's restrictive policies and the declining economy squeeze businesses that rely on foreign tourists or local citizens for profits, but those able to tap the growing Chinese and Indian markets do well. End comment.
VILLAROSA